

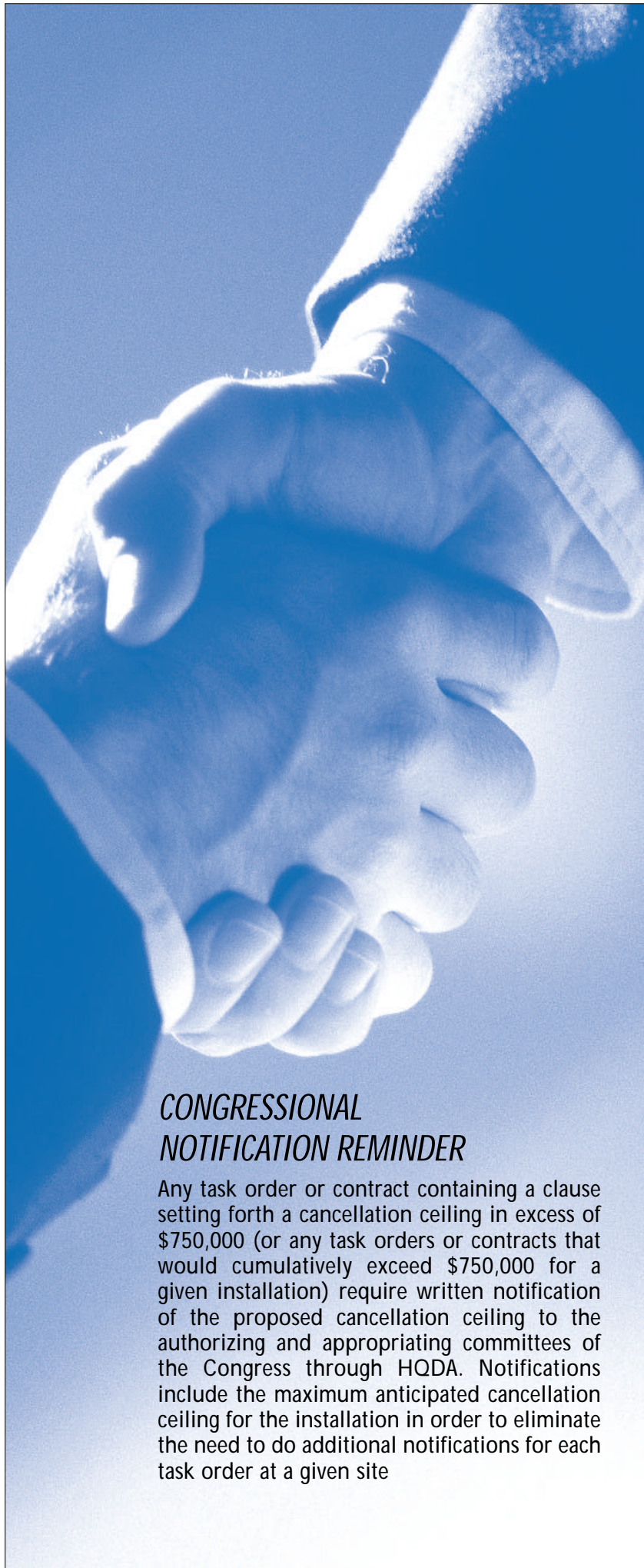
ENERGY SAVINGS PERFORMANCE CONTRACTS

*AN INNOVATIVE FINANCING AND
CONTRACTUAL MECHANISM*



A Guide
for Army
Garrison
Commanders

presented by
the Office of the
Assistant Chief of
Staff for Installation
Management



CONGRESSIONAL NOTIFICATION REMINDER

Any task order or contract containing a clause setting forth a cancellation ceiling in excess of \$750,000 (or any task orders or contracts that would cumulatively exceed \$750,000 for a given installation) require written notification of the proposed cancellation ceiling to the authorizing and appropriating committees of the Congress through HQDA. Notifications include the maximum anticipated cancellation ceiling for the installation in order to eliminate the need to do additional notifications for each task order at a given site

WHAT IS ESPC?

Energy Savings Performance Contracting (ESPC) — in simple terms — “How to use alternative financing to improve government facilities.”

The Energy Policy Act of 1992 authorized U.S. federal agencies to use private sector capital funding sources to finance costs associated with achieving mandated reductions in energy consumption levels. Various federal mandates require that energy consumption be significantly curtailed in federal facilities, regardless of funding source. As such, the government must achieve these mandated reductions by implementing energy efficiency measures, either through appropriated funding sources or alternative financing approaches.

Many Army facilities have outdated energy equipment in lighting, heating and cooling systems, and other energy consuming devices. The diminishing resources available to maintain and improve our facilities is a major challenge to our installations and their commanders. A case study at one major Army installation identified an investment requirement for over \$30 million. In order to improve our facilities and reduce our energy costs, the Army must look to the private sector for the necessary capital.

ESPC is a contracting methodology in which a private contractor, called an Energy Services Company (ESCO), performs services that include: audits, evaluation, design, financing, acquisition, installation and maintenance of energy efficient equipment; altered operation and maintenance improvements; or technical services for the installation. The ESCO receives compensation from the savings generated overtime such that energy and ancillary costs do not increase above what would have been incurred with other improvements. The terms and conditions set forth in the contract determine the level of compensation to the ESCO, with the remainder of savings to be retained by the installation. Current statute allows DOD components to enter into such contracts for their installations and/or facilities, including leased facilities (per 10 CFR 436 and EO 13123). ESPC provides an alternative method of implementing energy saving projects, when installation resources such as manpower, technical expertise or funding, are not available.

ESPCs give Army facility managers a solution to facility problems with minimal up-front cost. Applied with care and consideration, ESPCs can help facility managers:

- Reduce equipment breakdowns and emergency repair requests
- Provide better, more productive living and working conditions for soldiers, families and civilian employees
- Reduce costs
- Meet environmental mandates such as CFC phase-out
- Save energy and meet management goals

PARTNERSHIP WITH INDUSTRY

An ESPC contract is not the typical government contract. The government forms a long-term partnership with the ESCO. The ESCO staff should augment an installation's staff, help plan for long-term improvements, and install and maintain equipment. We rely upon the ESCO's technical expertise to design, improve, operate and maintain efficient equipment. This frees up our scarce engineering staff to address more critical mission needs.

The most successful partnerships are those where the ESCO staff is co-located on the installation with the government employees, enabling them to respond quickly; shares in the day-to-day workings of energy management; and are treated as a full team member. It takes time to build the trust necessary for a full partnership, but it's well worth the effort. Fort Bragg, NC, has achieved a full partnership with their ESCO and provides an excellent example of how to succeed with ESPC.

ESPC OPTIONS FOR ARMY ACTIVITIES

Numerous options are available to support Army installations in developing ESPC task orders and contracts.

US Army Corps of Engineers, Huntsville Engineering and Support Center (CEHNC) — The US Army Corps of Engineers (USACE) has designated Huntsville as its Center of Expertise for Energy Savings Performance Contracting. Huntsville has developed and awarded two sets of contracts covering all 50 states, the District of Columbia, and Puerto Rico. Individual Task Orders are issued for each customer. The Huntsville Center is a reimbursable organization within USACE.

Department of Energy/Federal Energy Management Program (DOE/FEMP) — The Department of Energy has developed and awarded several regional and technology specific contracts for ESPC Services. These contracts are available for use by Army installations and activities.

US Army Medical Command (MEDCOM) — The US Army Medical Command has developed and awarded a set of requirements contracts for ESPC Services for use at any of its installations and facilities in all 50 states, the District of Columbia, and Puerto Rico. MEDCOM provide these contracts to its installations and facilities at no charge.

Defense Energy Support Center (DESC) — The Defense Energy Support Center is working with several Army installations to develop and award Energy Savings Performance Contracts. DESC recently signed an MOU with DOE to provide support through the established DOE contracts.

MACOM/Installation Specific — If the previous options don't meet your needs and requirements, you can develop your own contract. Military District of Washington and some installations, such as Schofield Barracks and Picatinny Arsenal, have awarded their own contracts. If you have the manpower (contracting, legal, and technical) to develop and issue a full ESPC contract, it can be a very rewarding experience. Training is provided periodically by the Department of Energy.

KEY ISSUES & QUESTIONS ABOUT ESPC

What does Executive Order 13123 really say?

The new EO issued in June 1999 changed the energy reduction goals for all the Services. Using 1985 as the baseline for our energy usage, the Army must reduce its usage by 35% by 2010. The EO increased the reduction from 30 to 35% with an additional five years to meet the target. The EO also emphasizes the use of renewable resources and new and innovative approaches.

What does that really mean?

To meet the new goal, the Army will need more than \$800 million in capital investment. With ever-tightening budgets, the Army needs the private sector capital from using the ESPC contracting method to meet the goal.

What does it cost?

Some contracting agencies currently do not charge for their services to put a task order in place. Corps of Engineers, Huntsville Engineering and Support Center (CEHNC), has been developing, evaluating, and awarding ESPC task orders on a reimbursable basis for several years. They estimate that the cost of their support ranges from \$50K to 1% of the annual utility bill, depending upon the complexity, breadth, and scope of the contract task orders. DOE has three levels of support, each with a separate cost. Currently, DOE can be reimbursed for their services, from the savings generated by an awarded task order.

How can I get started?

HQDA recently reviewed the entire ESPC process and developed a "Quick Start" approach to be used by the contract agencies. For about \$10K, the contracting agency can match an ESCO to the installation. The ESCO will perform a survey and develop preliminary analysis and identify potential savings for the installation to review. This approach will use actual installation data and allows the ESCO to identify specific projects for that installation. Once the installation understands the benefits to be gained, it can follow-up by providing funding to the contracting agency to continue development of the ESPC projects. Six Quick Starts were awarded by CEHNC at the end of FY99 to test the new approach.

Energy Savings Performance Contracting (ESPC)

Installations enter into long-term (up to 25 years) contracts solely for the purpose of achieving energy savings and ancillary benefits. The Contractor incurs the initial cost of implementation of the energy savings measures in exchange for a share of energy savings. Savings to government are guaranteed, and will not exceed what would have been paid had no improvements been implemented. This guarantees funding for future payments to contractor.

WHO TO CALL

Office of the Assistant Chief of Staff for Installation Management (OACSIM), Directorate of Facilities and Housing, Facilities Policy Division, Utility Privatization and Energy Team, HQDA formulates Army policy and guidance on the Army's use of Energy Savings Performance Contracting. OACSIM develops goals and strategies for meeting DoD energy goals; promotes the use of new, innovative, and renewable approaches; provides Army staff executive oversight and is responsible for preparing the Congressional notifications for all ESPC contracts which have a cancellation liability of \$750,000 or more.

■ PRIMARY POINT OF CONTACT AT OACSIM

Ms. Regina Larrabee, DAIM-FDF-UE, (703) 428-8030,
Regina.Larrabee@hqda.army.mil

The following agencies have existing contracts available to support Army installations and facilities in contracting for ESPC support —

■ US ARMY CORPS OF ENGINEERS (USACE)

USACE ESPC Program Manager

Ms. Karlene Bodner, CEMP
(202) 761-0642; Karlene.M.Bodner@hq02.usace.army.mil

■ HUNTSVILLE ENGINEERING AND SUPPORT CENTER (CEHNC)

Ms. Sally Parsons, CEHNC-PM-CR
(256) 895-8233; Sally.B.Parsons@hnd01.usace.army.mil

Mr. Bob Starling, CEHNC-PM-CR
(256) 895-1531; Bobby.H.Starling@hnd01.usace.army.mil

■ U.S. DEPARTMENT OF ENERGY (DOE)

Information on FEMP's activities can be obtained from:
FEMP Office at (202) 586-5772 or
FEMP Help Desk at (800) 566-2877
Website: www.eren.doe.gov/femp

■ DEFENSE ENERGY SUPPORT CENTER (DESC)

Mr. Richard Mann, DESC
(703) 767-9403; RMann@desc.dla.mil

■ US ARMY MEDICAL COMMAND (MEDCOM)

(support for US Army Medical Facilities and Installations)
Mr. Rob Jay, MEDCOM
(210) 221-6441; Robert.Jay@cen.amedd.army.mil.

Contact your MACOM ESPC Point of Contact for more details or assistance in implementing your ESPC initiative.

ESPC — A Government/Industry Partnership to provide quality facilities for our soldiers and families.

OACSIM issued revised ESPC Guidance on 30 Sep 99 to assist MACOMS and installations in implementing ESPC contracts. The guidance can be found on the ACSIM Web at the following address — <http://www.hqda.army.mil/acsimweb/fd/utilities.htm>